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SIPDIS

SENSITIVE

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SUBJECT: CHT NETWORK MIGRATION PLANS

REF: SECSTATE 229580

11. (U) This message is Sensitive but Unclassified. It contains business confidential information and is not for internet publication.

12. (U) Summary: Chunghwa Telecom (CHT) continues to make plans for implementing its Next Generation Network (NGN) project, but has postponed the timeline and is concerned that the newly-established National Communications Commission (NCC) could enact policy changes that would make the project unfeasible. CHT leadership says the newly privatized company is no longer bound by government procurement regulations but will do what is best for the shareholders, the largest of which remains the government. End Summary.

13. (SBU) In response to reftel AIT Econ and Commercial staff met December 28 with CHT Planning Department, Senior Managing Director Mark Lee to discuss CHT plans for migration to its Next Generation Network. This is expected to be a multi-billion U.S. dollar infrastructure development project spread over at least eight years. U.S. telecommunications equipment company Lucent has expressed interest in the project and have already met with CHT leadership. AIT/T met with CHT in May 2005 to discuss the NGN project, but since that time CHT has been officially privatized and Taiwan has passed legislation to create a National Communications Commission (NCC) responsible for telecommunications and broadcast policy.

14. (SBU) Lee declined to predict when or whether CHT might open a tender for the NGN system. He told AIT that the unexpected passage of legislation in November establishing the NCC made the immediate future of the telecom industry sufficiently unclear that CHT leadership had decided to take a cautious approach to implementing any major projects. While Lee had previously expected the project would be opened for bids sometime in 2006, he now thought it would be postponed until 2007. Lee was particularly concerned that the NCC might endorse a policy that would require CHT to turn over access to its "last mile" infrastructure to competitors. Since CHT was now a private company, he said, it needed to responsibly safeguard the assets of its investors. It made no sense to begin a multi-billion dollar project that would not yield a significant return. However, CHT is continuing to make plans and will be able to move quickly when the time is right, he added.

15. (SBU) Following "privatization" in August 2005, CHT is no longer bound by the requirements of Taiwan's Government Procurement Law, one of which mandates at least three bidders for any large project. CHT has not decided about whether to structure the tender as a new project or an upgrade of existing technology. In any case, Lee suggested CHT would be reluctant to rely on one provider and would likely choose at least two companies to provide NGN equipment. Lee noted that Lucent, Siemens and Alcatel had all expressed interest in the NGN project and had made efforts to promote the merits of their individual technologies. All three are currently providing switching equipment to different regions of Taiwan. Lee added that he was aware that Lucent's solution was technologically superior to its competitors and he emphasized that Lucent had a very solid position, despite being more expensive. He suggested that any final decision on suppliers would be based on many factors.

16. (SBU) Lee also noted that Lucent's pilot Internet Protocol Multimedia Sub-system (IMS) was currently undergoing testing in southern Taiwan and suggested this would be a good trial run for Lucent's technology. If it performed well, it would boost Lucent's chances of successfully winning a share of the NGN project in the future. AIT staff noted that other companies had been actively pressing their solutions and reminded Lee that Lucent was restricted by the FCPA in ways that European companies were not. Lee appreciated Lucent's adherence to the requirements of the FCPA and insisted that any decisions on procurement would be based on the merits of the equipment.

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